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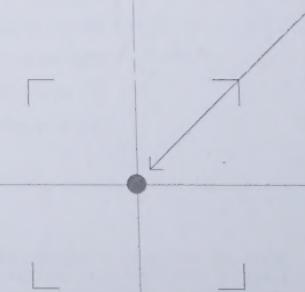
discovery technology opportunity

BIRCH MOUNTAIN RESOURCES LTD.
[ANNUAL REPORT 2001]

unique

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Birch Mountain is a mineral exploration company with a unique mineral technology division. We have discovered natural nanoparticulate metal in Athabasca limestone and developed a proprietary technology for its extraction. This technology, for which we have filed a U.S. patent application, may potentially alter the way minerals are produced in the future and create unique opportunities for the Company to provide value to our shareholders.



letter to shareholders

There are three converging events that bode well for increasing shareholder value in the Company – progress in our proprietary technology, burgeoning interest in nanotechnology and a revitalized gold market.

Discovery/Technology/Opportunity

Birch Mountain is a unique resource-sector company with a proprietary technology that offers a distinctive business opportunity for visionary investors. In the Company's seven years of business, the last few months have been the most exciting for me as president. The marketplace (including significant investment houses, the mining industry and individual investors) is more interested in and more positive about our story, and academic and government laboratories are now eager to become involved in our research. *"Nanotechnology is one of the least talked about, yet fastest growing and influential sectors of the global economy,"* says Newt Gingrich, Former Speaker of the House of Representatives in the United States. Gingrich goes on to say, *"If you ... take the impact of physics from the transistor to the laser to modern computing, and try to quantify how much that's added to the economy, it will be a staggering number. I think what you're dealing*

with, between nanoscale quantum behavior and biology, it's clearly bigger than the impact of physics on the 20th century...." Metal markets are strengthening, and across the continent and around the world, interest in nanotechnology is escalating rapidly. Birch Mountain was instrumental in pioneering early discoveries of natural nanoparticulate metals and has maintained a leadership role in this field. Industry and investors are just beginning to understand the far-reaching implications of these discoveries. For Birch Mountain, the future has never looked better.

Almost everyone whom I talk to about Birch Mountain for the first time wants to know the Company's history – how we evolved to become a unique exploration/technology enterprise with proprietary technology on naturally occurring precious and non-precious metal nanoparticles. To make it easier for investors to understand the Company and to address its unique nature – mining and technology and the varying disclosure issues that arise within each business unit – we have established two operating divisions. The Mineral Technology Division will focus on our research on the analysis, extraction and recovery of natural metal nanoparticles and disclosure of this work will not be linked to our exploration properties unless specified criteria are met. While the timeline at the bottom of the pages in this report highlights key events in our history, I'd like to expand on that and focus on several

Along the bottom of the pages in this report is a timeline that highlights key events and provides a perspective on events described in the report's text.

[16TH CENTURY]

Georgius Agricola (1556) and Lazarus Ercker (1574) write the first scientific treatises on fire assaying, a process that's been in existence for over 4,000 years.

areas of our evolutionary progress in Mineral Technology to provide a context for why there is a growing interest in the Company from diverse market sectors.

Evolution from the Traditional to the Unique

We began as a traditional junior mineral exploration company in 1995 with multiple properties and a broad focus. But we began with a vision that has not wavered. We believe metals exist in a form that has been overlooked by conventional methodology, that the Athabasca region of Alberta has the potential to host one or more deposits of precious metals in this form, and that similar deposits will be found in comparable geological settings throughout the world. Using scanning electron microscopes (SEM), our researchers and a dozen or so other government, university, corporate and commercial research laboratories in Canada, the United States and South Africa, have documented widespread precious metal microparticles in rocks from the Athabasca region. By 1998, we narrowed our focus on the Athabasca property. A year later, we postulated that nanoparticulate metals were present in an intractable form, which could explain the variance between analytical determination and SEM prediction of metal concentrations in the Athabasca rocks.

Using a transmission electron microscope (TEM) at the University of Calgary, the Company made a major breakthrough in 2000 when we discovered nanoparticles in limestone and in solution extracts from a bulk rock sample. This was reported by subsequent analytical electron imaging in university and government laboratories and at FEI/Phillips, in Eindhoven, the Netherlands.

To protect our technology for nanoparticle extraction and recovery, the Company applied for a U.S. patent in June 2000. In 2001, we filed this original patent application as an international Patent Convention Treaty application, which was published on December 31, 2001, as WO 01/94650 A2. We are preparing new patent applications for methods and products for the extraction and recovery of precious and non-precious metal nanoparticles. As part of our ongoing policy, key aspects of Birch Mountain's technology have been verified by independent agencies, supporting our belief that our technology and underlying scientific hypotheses are valid. We are grateful for the tenacity of our scientists and the patience of our investors, both of whom recognize that the time lag between discovery and utilization is unpredictable and often lengthy.

[1911-12]

In his search for the source of the Athabasca oil sands, American wildcatter Homer Bradley drills Athabasca Oils Ltd. No. 1 into Precambrian basement rocks.

Alberta government geologists report the presence of gold mineralization in a sample from Athabasca Oils Ltd. No. 1 drill hole.

Nanoparticle Properties

Nanoparticles are extremely small – a few billionths of a metre – and typically consist of 10 to 100,000 atoms. Properties related to their size have presented profound challenges. They can have unique physical, mechanical, electronic, magnetic, optical and chemical properties that differ from the corresponding macroscale materials. In *Scientific American's* September 2001 issue, *Matter at the Nanoscale*, Michael Roukes from the California Institute of Technology explains the science of matter at the mesoscale, smaller than macroscopic but larger than the atomic scale: "*Matter at this mesoscale is often awkward to explore. It contains too many atoms to be easily understood by straight-forward application of quantum mechanics (although fundamental laws still apply). Yet these systems are not so large as to be completely free of quantum effects: thus, they do not simply obey the classical physics governing the macroworld.*" How true. Scientists have observed that gold nanoparticles melt at a lower temperature than bulk gold, and that copper nanoparticles can be five times as hard as bulk copper.

Mineral Technology Verification

We believe there are global applications for the extraction technology and value in our intellectual property generated by our Mineral Technology

Division. Our goal now is to realize a consistent assay process and further develop and refine methods for extracting and recovering natural nanoparticles. A future goal is to convert metals in nanoparticulate form to macrosolids.

Canada Centre for Mineral and Energy Technology (CANMET) identified nanoparticulate metals in rock, and components of the Company's technology have been carried through independent chain-of-custody verification. The University of Calgary has verified nanoparticulate metals in rock and extract solutions. Ontario Geoscience Laboratories (GEO LABS) has verified the presence of precious metals in rocks and extract solutions. However, additional work and tests are required before the commercial significance of this work can be assessed.

In March 2001, we announced independent verification of our identification of copper and iron nanoparticles in rocks and nanoparticle extract solutions. We are testing the hypothesis that gold and other precious metals can be isolated and analyzed as we have done with copper and iron nanoparticles. During the year, we worked with GEO LABS to replicate our protocol for analyzing precious metals in nanoparticle extract solutions and advance it to a quantitative analytical method. GEO LABS, using a chain-of-custody sample and our extraction protocol, reported quantitative detection of gold in analyses of two of the three nanoparticle extract solutions.

[1962-63] • [SPRING]

Geologists detect traces of gold in 4 holes drilled near Athabasca Oils Ltd. No. 1.

[1994] •

The Geological Survey of Canada (GSC) reports microparticulate gold and other precious and non-precious metals in rocks from Athabasca.

In January 2002, we entered into a contract with AuRIC Precious Metals Inc. (AuRIC) to purchase rights to a customized fire assay protocol developed by AuRIC. The contract is conditional on the successful completion of independent, third-party verification tests using a double-blind chain-of-custody test protocol prior to concluding the transaction. The 45 test samples of standards, rocks and blanks were prepared and delivered as blind, numbered samples by companies fully independent of Birch Mountain. In part one of the two-step verification protocol, Mr. Martin Thomas, M.Sc., P.Eng. a metallurgical engineer with Lateral Solutions Inc. (LSI) of Calgary, Alberta, supervised and worked with AuRIC to complete the assay protocol on the 45 blind samples and 5 reagent blanks. AuRIC provided the results directly to Dr. Adrian Mann, Ph.D., MBA, P.Geol., a geochemist with Ruthrie Enterprises Ltd. (REL) of Calgary, Alberta. Following analysis of the results against established criteria, REL recommended we proceed to part two, which involves analysis of the same test suite using the AuRIC assay protocol in two independent laboratories in Canada. Full disclosure of the verification protocol and test results will be made when the tests are completed. These tests have been unavoidably delayed pending the completion of financing activities, which are underway.

New Mineral Technology Discoveries

In March 2002, we announced our discovery of natural platinum nanoparticles in sedimentary rock using a transmission electron microscope (TEM) at the University of Calgary. Platinum nanoparticles were found by TEM examination of a cross-section cut from a platinum microparticle using a focused ion beam (FIB). TEM analysis of the FIB section showed that the platinum microparticle is a composite particle made up, in part, of successive bands of platinum up to 500 nanometres thick. The platinum bands are composed of layers of 3-20 nanometre platinum nanoparticles and nanoparticle aggregates. These observations are consistent with our hypothesis that precious metal nanoparticles exist in nature and can aggregate to form microparticles.

Mineral Exploration Division

Athabasca At the end of 2001, the Athabasca property consisted of mineral permits and leases covering 675,316 hectares (1,668,735 acres). Precious metals continued as our primary mineral exploration focus. In 2001, our exploration primarily involved examination and analysis of cores from our drilling programs, as well as cores and geophysical logs from delineation drilling done by oil sands companies holding overlapping mineral rights. Minor surface sampling was also done. Most of the recent drilling and surface

[JANUARY 31] • [1995]

BMD lists on the Alberta Stock Exchange.

[SPRING] •

BMD begins bio-geochemical mapping, structural mapping, air-photo lineament analysis and air-borne gamma-ray spectrometry in Athabasca.

sampling has been done under chain-of-custody to provide independently sampled rock for testing and verification of analytical procedures.

Birch Mountains At year-end, we had 10 mineral permits – one acquired in 2001 – covering 92,160 hectares (227,731 acres) in the Birch Mountains of Alberta. Diamond-bearing kimberlite rocks are our principal exploration targets in the Birch Mountains, but we have also conducted some preliminary precious metal exploration in this area. The diamond exploration, including drilling early in 2002, is being done by Shear Minerals Inc. and Marum Resources Ltd. under an option agreement with Birch Mountain. The first holes drilled did not encounter kimberlite, and Shear and Marum are evaluating the results.

Dawson Bay Our exploration property in the Dawson Bay region of Manitoba is held by our wholly owned subsidiary Dawson Bay Minerals Inc. In 2001, we reduced our landholdings in Manitoba to 9,784 hectares (24,177 acres). No exploration was conducted in Manitoba in 2001.

The Opportunities Ahead

Mineral Technology Division As I mentioned earlier, a burgeoning interest in nanotechnology has strengthened the interest in Birch Mountain's

achievements and plans. In January 2000, the U.S. government supported the National Nanotechnology Initiative with \$500 million, and in October 2002, the Bush administration increased 2002 funding for nanoscale science by 16% to \$174 million. George W. Bush, President of the United States, said, *"The convergence of nanotechnology with information technology, biology and social sciences will reinvigorate discoveries and innovation in many areas of the economy."* The Canadian and Alberta governments committed \$120 million in August 2001 to the National Institute for Nanotechnology at the University of Alberta. The University of Toronto has established a Centre for Nanotechnology with 14 principal investigators and 30 students. Globally, most industrialized countries are committing significant sums of money to nanotechnology through government and industry-sponsored programs. And investors, encouraged by analysts, are now beginning to recognize the opportunities that nanotechnology offers. *"We believe nanotechnology could be the next growth innovation,"* says Steve Milunovich, Merrill Lynch Global Technology Strategist.

We have three goals for 2002 for the Mineral Technology Division. Our first priority is to develop and verify a fire assay protocol. The second is to develop and verify a scalable metal extraction process. The third is to convert nanoparticulate metals in solution to macrosolid metal-in-hand.

[1996] • [WINTER]

Multi-element geochemical analytical data lead to the first recognition of alteration in Devonian limestone in the vicinity of Syncrude's Aurora Mine development.

[1997] • [APRIL 3]

BMD announces significant gold and platinum grades in limestone from 3 different fire assays of an interval in Syncrude drill hole 11-7-AE-96-10W4 (11-of-7) independently obtained by consultants working for Syncrude and confirmed by reanalysis.

Mineral Exploration Division We have plans for two contingent phases for this division in 2002. In phase one, our objective is to identify one or more prospective drill targets by analyzing select core and surface samples from our archives. Phase one is contingent on the verification of a custom method to assay precious metals. Field exploration may be conducted in 2002 as part of phase one. Phase two, the goal of which is to delineate one or more zones of potential mineralization of precious metals by drilling, is contingent on a successful outcome of phase one.

Benefits to Both Divisions With political turmoil worldwide and volatile stock markets marked by diminishing returns and lofty valuations, investors are returning to gold and gold stocks. A weakening U.S. dollar, the potential for rising interest rates and the after-effects of 9/11 have also influenced investors to hold or re-establish positions in gold and other precious metals. Gold bullion prices have climbed to a two-year high, breaking through the psychological \$300 mark for the first time in more than two years. Larger companies in this sector were among the first to benefit, but the trickle-down effect has also created a greater interest in Birch Mountain's story.

Birch Mountain has co-development agreements with Syncrude Canada Ltd. and Suncor Energy Ltd., and a Cooperation and Information Sharing

Agreement with Albian Sands Energy Inc. (Shell Canada, Chevron Canada and Western Oil Sands Inc.). Birch Mountain owns the rights to metallic and industrial minerals above and below the oil sands, while the oil sands leaseholders own the rights to minerals found in the Cretaceous oil sands. These agreements have provided us with data from \$23 million of drilling in the form of core from more than 1,300 oil sands delineation holes and 900 electronic borehole logs. Integrating these data with other information, including interpreted fault locations, geochemical analyses and lithological descriptions has enabled us to identify the most prospective areas within our landholdings in this area.

In 2002, we hope to negotiate a business venture with one or more corporate partners, which would benefit one or both of the Company's divisions.

Action that Benefits U.S. Shareholders We have made the opportunity to invest and trade in Birch Mountain more accessible in the United States as well. Birch Mountain's shares began trading under the symbol BHMNF on the OTC-BB on April 2, 2002, assisting our American shareholders and expanding the base of knowledge and interest in the Company's business.

[MAY] ←

BMD signs a co-development agreement with Syncrude for activities on its Aurora lands.

[JUNE] ←

In our 1996 annual report, BMD publishes details of the Prairie Gold Model, which postulates the low-temperature origin of microparticulate gold, silver and platinum group metals in Athabasca rocks.

Financing Research, Verification and Exploration

On April 22, 2002, Birch Mountain announced a \$525,000 private placement, the first of a multi-staged financing to advance the Company's natural nanoparticle research, precious metal assay verification and exploration programs, as well as fund ongoing corporate activities. The Company intends to issue 1.5 million units priced at \$0.35 per unit, each unit consisting of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase an additional common share for \$1.00 for a period of 14 months from closing. We hope our share price performance will lead to the exercise of warrants in June 2002, which would provide an additional \$2.1 million in operating funds.

Unique Company Created by Unique People

Our scientists – Mr. Glen De Paoli, Ms. Kyla Arden, Mr. Scott Rose, Mr. Bill Hemstock, Mr. Brett Johnson and Mr. Gerald Kozdial – led by Dr. Hugh Abercrombie, are the source of the Company's innovation. They have been ably assisted by our scientific advisors, Dr. Richard Puddephatt and Dr. Robert Fitch. In the office are Ms. Silvia Borneos, our accountant, Ms. Jane Quinn in shareholder services and Ms. Diane Milot, our receptionist/records administrator. Appointed to the Board of Directors in

May 2001 were two fine additions to that hard-working team – Dr. Jack Clark and Mr. Charles Hopper – whose impressive credentials you can read about on page 38. Mr. Kerry Sully, who has been Chairman of the Board since 1998, has decided to step down as Chair but has put forth his name to continue as a Director. In addition, Mr. John Houghton, Corporate Secretary, Ms. Suzanne Loov, Assistant Corporate Secretary and Mr. Joe Galda have provided Birch Mountain with valuable legal expertise. Mr. David Harper has joined the team of our financial advisors, Legg Mason Wood Walker. Mr. Greg Driscoll has left Legg Mason, and we thank him for his valuable contribution and wish him well in his new endeavours.

With this team, the support of shareholders, the discoveries we have made, the technology we have developed, the opportunities we have identified and the positive marketplace, I'm looking forward to the months ahead.



Douglas J. Rowe, P.Eng.

President & CEO

May 3, 2002

[1998] → [MARCH]

BMD signs a co-development agreement with Shell Canada/BHP Diamonds on Oil Sands Lease 13.

→ [MAY]

BMD signs a co-development agreement with Suncor Energy Inc. Oil Sands on its Millennium Project lands.

This Management's Discussion and Analysis, in addition to providing a review of 2001 and brief comparisons with 2000 and 1999, outlines one of last year's most significant events - the trading suspension imposed by the Canadian Venture Exchange. The timeline of key events in Birch's evolution, begun on page 2 of this report, continues throughout the MD&A as well.

m d & a



management's discussion & analysis

This Management's Discussion and Analysis describes Birch Mountain's operations and financial results for the year ended December 31, 2001.

Overview

Birch Mountain continued exploring for commercially viable metal deposits on our mineral properties in Athabasca in northeastern Alberta. With the discovery of nanoparticulate metals in rock from the Company's property in 2000, the focus of our research has been to understand the properties of metal in this form and to develop methods for the extraction and reliable measurement of metal concentration in rock. Recognizing the operational and regulatory differences related to disclosure between exploration and research, the Company now operates a Mineral Exploration Division and a Mineral Technology Division. Mineral exploration and the development of a geological model known as the Prairie Gold Model was the principal activity in the early years of the Company. Over the past two years, we have placed a major emphasis on research and development of technology to extract nanoparticulate metals and measure metal concentrations in sedimentary

rock. Financial reporting of the investment in research started in 2000 and, therefore, the formal structuring of the Company's operation into two divisions requires no change in financial reports.

The Company has no assurance that a commercially viable ore deposit exists on our mineral properties, or that there are commercial concentrations of metals on these lands, or that a commercially viable process for metal extraction will be developed.

In 2000, Birch Mountain established a Scientific Advisory Board (SAB), which has been a valuable addition to our research and technology operation. The primary functions of the SAB have been to provide independent advice to the Board of Directors on scientific matters, advise management on scientific aspects of the Company's research, and act as a liaison with scientific institutions on specific research. Dr. Richard Puddephatt and Dr. Robert Fitch were appointed as the founding members of the advisory board.

Dr. Puddephatt is a Fellow of the Royal Society (U.K.), Fellow of the Royal Society of Canada and Professor of Chemistry at the University of Western Ontario. He has published several books on the chemistry of gold and more than 450 peer-reviewed scientific publications in the field of chemistry.

[1999] → [JANUARY]

BMD drills additional holes to collect bulk samples, including twinning 11-of-7.

→ [MARCH]

Birch hypothesizes that the presence of precious and non-precious metals as nanoparticles might explain (i) the unusual compositions of precious and non-precious metal microparticles, and (ii) apparent problems in obtaining positive precious metal assays from rocks shown to contain microparticulate precious metals.

Dr. Puddephatt holds patents and is Senior Editor of the *Canadian Journal of Chemistry*.

Dr. Fitch, President of Fitch and Associates, is primarily involved in assessing new technologies and research in chemistry and physics. Dr. Fitch retired as Senior Vice President of Research and Development for SC Johnson Wax in 1990. Prior to that, he was Professor of Chemistry and Materials Science at the University of Connecticut. Dr. Fitch holds patents and has published more than 100 papers and three books on polymer colloids and polymers at interfaces.

Birch Mountain maintains a 100% interest in most of our exploration land holdings, and following the filing of the assessment report for \$5.15 million in April 2002, the lands include 360,675 hectares (891,228 acres) held under Metallic and Industrial Mineral Permits for another two years. The 2002 assessment filing is sufficient to retain Birch Mountain's priority permits for the next two years, or until the expiry of their 10-year term, whichever is earlier. Additional assessment-eligible work has been completed and will be available for future assessment reports. Core lands comprising 48,785 hectares (120,548 acres) in the Athabasca valley are held under Metallic and Industrial Mineral leases.

Birch Mountain has no revenue, and our funding has come primarily from private placements. We have incurred operating losses since our inception in 1995, and as of December 31, 2001, we had a deficit of \$24,045,999. Our

losses are primarily from costs associated with the business of mineral exploration and scientific research. Our results of operations have fluctuated from period to period and may continue to do so in the future depending on the timing, amount and type of funding. We expect to incur additional operating losses in the future as we continue our exploration and technology development.

Birch Mountain is subject to risks common to companies involved in challenging old theories and developing new technologies. In addition, we are subject to the risks associated with business strategy, technological change, the history of operating losses, the need for future capital, competition, patent and proprietary rights, dependence on key personnel, and the volatility and trading of our stock, which suffered a significant impact during the last year.

The Canadian Venture Exchange

A significant event in the past two years was the trading suspension imposed by the Canadian Venture Exchange (CDNX). On the basis of statements contained in the Company's news release of June 15, 2000, announcing our technical achievements and the filing of a U.S. patent application, trading of the Company's common shares was halted by the CNDX on June 16, 2000. On June 28, 2000, the CNDX suspended trading of the Company's shares.

[SUMMER] •

BMD establishes its own metallurgical laboratory to evaluate the geochemical characteristics of our exploration samples.

[SPRING] • [2000]

BMD discovers the occurrence of natural nanoparticulate metals in limestone and in solution extracts from a bulk sample. BMD applies for a U.S. patent to protect our technology related to nanoparticle extraction and recovery. BMD drills two holes to provide chain-of-custody samples for additional testing.

Following three months of information review and consultation, the Company agreed to issue a clarifying news release, cooperate with the CDN to conduct an independent technical audit and provide assurance to the CDN that insiders of the Company would not trade in the Company's securities until the independent audit was complete. On this basis, the CDN agreed to allow trading in Birch Mountain's shares to resume. The clarifying news release was issued on September 27, 2000, and the CDN reinstated trading of the Company's common shares on September 29, 2000.

Associated Mining Consultants Ltd. (AMCL) of Calgary conducted the independent technical audit. Their final report was issued to the CDN and the Company on February 8, 2001. The Company issued a news release on February 16, 2001, that contained AMCL's conclusions, and the statement that Birch Mountain considered the audit process to have been flawed and disagreed with most of the report's conclusions. The CDN again suspended trading of the Company's common shares on March 5, 2001, based on information in the AMCL audit report. The Company detailed our disagreements with the AMCL conclusions and filed these, together with other third-party reports, as part of our appeal of the suspension of trading with the Alberta Securities Commission (ASC) on March 9, 2001.

On April 3, 2001, the ASC issued a written decision to hear the Company's appeal, and ordered the CDN to table the "record" of documents in its possession used in making the determination to suspend trading of Birch Mountain's common shares. Despite efforts throughout most of 2001, there was no response from the CDN until the Company and a group of shareholders filed applications with the ASC for a hearing *de Novo* or a hearing in which new evidence could be presented, on October 30, 2001. In response to this action, legal council for the CDN proposed an appeal to the Listed Company Review Panel. On consideration of the options, and preserving the right of appeal to the ASC, Birch Mountain filed an appeal with the Listed Company Review Panel. On December 14, 2001, the independent Panel was named, and the first meeting to discuss process took place December 18, 2001. Birch Mountain requested a hearing *de Novo*. The CDN objected, and a preliminary hearing on this application was held January 4, 2002. The Panel immediately granted the Company's application for a hearing *de Novo*, citing a "reasonable apprehension of bias" on the part of the CDN.

The full hearing was to begin January 28, 2002, but Birch Mountain accepted a proposal from the CDN for a negotiated settlement. After protracted discussions, an extensive news release was issued March 7, 2002, and trading of the Company's common shares resumed on the CDN on March 11, 2002. The CDN advised that "no adverse inference should be drawn from the suspension."

[2000] → [JUNE 16]

CDN halts the trading of BMD shares on the basis that a news release of June 15 inferred BMD had developed a technology to detect and/or extract gold not quantifiable by conventional means.

→ [DECEMBER 15]

BMD announces the formation of a Scientific Advisory Board with Dr. R.J. Puddephatt and Dr. R.M. Fitch as founding members.

Registration with the U.S. Securities and Exchange Commission

In September 2000, Birch Mountain filed a Form 20-F Registration with the U.S. Securities and Exchange Commission (SEC). Registration with the SEC enables U.S. broker/dealers to solicit secondary investment in the Company's securities and facilitates investment by U.S. citizens. Registration with the SEC is also a prerequisite to an application for listing on a U.S. stock exchange. Birch Mountain is now a reporting issuer in the U.S., having filed a Form 20-F Annual with the SEC on June 28, 2001.

Birch Mountain fully adopted the accounting guideline *AcG-11- Enterprises in the Development Stage*, released in March 2000 by the Canadian Institute of Chartered Accountants. This resulted in the Company writing off all deferred mineral exploration costs, so now the Company's exploration related costs receive essentially the same treatment in both Canadian and U.S. GAAP.

Trading in the U.S.

The Company engaged Kenny Securities Corp. of St. Louis as Market Maker. The Market Maker filed a Form 211 with the National Association of Securities Dealers (NASD) in August 2001 for approval to make a market in the shares of Birch Mountain on the Over-the-Counter Bulletin Board. The application was reviewed, but trading was not approved until the Company

announced our settlement with the CDN on March 7, 2002. Trading under the symbol BHMNF began on the OTC-BB on April 2, 2002.

Results of Operations

Costs and Expenses Total costs and expenses were \$1,685,713 (excluding \$941,530 of Mineral Exploration Expenses) in 2001, down from \$2,171,366 in 2000, but up from \$835,687 in 1999. Salaries, management fees and benefits of \$428,171 decreased in 2001 compared to \$475,912 in 2000, but were higher than the \$247,870 in 1999. The higher expenses in 2001 and 2000 reflected the significant increase in laboratory work, the filing of a U.S. and international patent application, and the preparation of an assessment filing to hold our Athabasca and Birch Mountain mineral permits for two more years. Legal, consulting and staff costs associated with the suspension of trading imposed by the CDN and the independent technical audit ordered by the CDN caused a major increase in operating expenses in 2001 and 2000. The total cost of defending the Company from the actions of the CDN over these two years was approximately \$1,000,000 in staff, consultant and legal expenses. The writing and filing of the Form 20-F Registration with the U.S. Securities and Exchange Commission also added considerable costs in professional fees in both 2001 and 2000.

[FEBRUARY 16] • [2001]

BMD issues a news release containing AMCL's conclusions, stating that we disagree with a number of them and consider the audit process to be flawed.

[MARCH 5] •

CDN halts the trading of BMD shares pending the review of issues arising from the findings of the technical audit conducted by AMCL and from its own review of the Company's affairs.

Corporate Income and Expenses Birch Mountain is engaged in mineral exploration and technology development related to mineral characterization and extraction from rock on our mineral properties. The Company's main source of income from year to year is interest earned on our term deposits. Interest income over the years has varied with the amount of money in term deposits and has not been a significant component of the Company's ability to operate. Interest and other income in 2001 was \$72,560, a decrease from \$194,504 in 2000, and up slightly from \$71,096 in 1999.

The Company and its subsidiaries have no income from production as our properties are still at an exploration stage and technology is still under development. The Company spends about \$150,000 per month for management and shareholder services, laboratory analysis, evaluation of geological samples, travel and other expenses. Outside consulting and legal expenses add to this, and have been as high as \$100,000 per month.

Liquidity and Capital Resources Our primary sources of cash have been private placements. At December 31, 2001, our working capital was approximately \$75,000 compared with \$2.6 million in 2000. Only one private placement took place during 2001 for the amount of \$72,500. The Company completed private placement financing of \$2.7 million in January 2000, and the exercise of warrants in April 2000 provided an additional

\$1.3 million. While Birch Mountain has been successful in raising funds, we believe junior resource companies will continue to have difficulty financing new issues in 2002. As a result, the Company will remain prudent and cautious, preserving our working capital by conducting selective field programs and value-adding laboratory work as well as minimizing general and administrative costs.

Comparatively, at December 31, 1999, working capital was approximately \$700,000 following private placements in April and November that generated \$1.7 million of cash.

Mineral Exploration Costs Mineral Exploration Costs were \$941,530 in 2001 compared with \$2.3 million in 2000. We focused our exploration programs on the Company's two Prairie Gold prospects, directing 100% of our 2001 exploration expenditures to our Athabasca project and the rest to our Dawson Bay play. In comparison, our capital and mineral expenditures in 1999 were \$634,000, with 90% directed to Athabasca.

Mineral Technology Costs The Company spent \$128,068 in 2001 and \$160,539 in 2000 on scientific research, primarily on the development of proprietary extraction and analytical techniques. Expenditures on mineral technology were reduced in 2001 because of the commitment of senior technical staff to deal with the actions of the CDN. There were no similar expenditures on research in previous years. The results of our research led to the filing of a U.S. and international patent application in the spring of

[2001] → [MARCH 14]

BMD files an appeal with the Alberta Securities Commission requesting a review of the CDN's decision to suspend trading on the basis that the suspension wasn't factually supported by the AMCL report.

→ [MARCH 23]

BMD announces independent confirmation of copper and iron nanoparticles in chain-of-custody rock from Athabasca.

2000. We are continuing our work in the Company's lab, at university and government labs in Canada and at selected high-quality independent laboratories in Canada and the U.S.

On October 24, 2001, the Company announced that the expiry dates on all outstanding warrants were extended as follows: 228,152 warrants which were to have expired on November 10, 2001, were extended to June 21, 2002; 764,231 warrants which were to have expired on October 22, 2001, were extended to June 21, 2002; 408,614 warrants which were to have expired on October 25, 2001, will now expire on June 21, 2002, and 9,784 warrants which were to have expired on October 31, 2001, were extended to June 21, 2002. The exercise price of all warrants remains at \$1.50 per share.

Our existing capital resources are inadequate to maintain operations at our current rate of investment in exploration and research to the end of 2002. The Company announced a private placement on April 22, 2002, as

the first step in what is planned to be a multi-staged financing to advance the natural nanoparticle research and precious metal assay verification programs, together with ongoing corporate activities. There is no assurance that events will not result in changes affecting the Company's ability to continue operations. Additional financing may not be available when needed, or if available, it may not be on terms that are acceptable to us. To the extent that we raise additional capital by issuing equity or convertible debt securities, ownership dilution to stockholders will result.

Birch Mountain does not use derivative instruments. The Tahera Corporation shares, which were accepted as a settlement of debt were sold during 2001. The Company invests only in bank-guaranteed certificates of deposit and, consequently, we do not expect any material loss from marketable security instruments and believe our interest rate exposure is limited.

Landholdings

| (December 31) | 2001 | | 2000 | | 1999 | |
|------------------|----------------|------------------|----------|-----------|-----------|-----------|
| Project | hectares | acres | hectares | acres | hectares | acres |
| Athabasca | 675,316 | 1,668,735 | 765,306 | 1,891,105 | 791,603 | 1,956,162 |
| Birch Mountain | 92,160 | 227,731 | 82,944 | 204,959 | 82,944 | 204,959 |
| Caribou Mountain | — | — | — | — | 175,104 | 432,691 |
| Dawson Bay | 9,784 | 24,177 | 92,225 | 227,893 | 92,225 | 227,893 |
| Total | 777,260 | 1,920,643 | 940,475 | 2,323,957 | 1,141,876 | 2,821,705 |

[DECEMBER]•

BMD files an appeal with the Listed Company Review Panel (LCRP).

[JANUARY 4]• [2002]

Preliminary hearing of LCRP rules in favour of BMD's application citing "reasonable apprehension of bias" on the part of the CONX.

The preceding table reflects changes announced in December 2001 when the Company dropped 10 Athabasca permits covering 91,114 hectares (225,051 acres) and acquired one permit (9,216 hectares, 22,764 acres) in the Birch Mountains.

On April 22, 2002, Birch Mountain announced we had filed a 2002 exploration assessment report with the Alberta Department of Energy in the amount of \$5.15 million for work conducted from April 2000 to March 31, 2002, on our exploration properties in the Athabasca and Birch Mountains. The assessment expenditures have been applied to 55 metallic and industrial minerals permits covering 360,675 hectares (890,086 acres). The expenditures included in the 2002 assessment report are sufficient to retain Birch Mountain's priority permits for the next two years, or until the expiry of their 10-year term, whichever is earlier. Additional assessment-eligible work has been completed and will be available for future assessment reports. All permits in the exploration property in the Birch Mountains have been retained, in accordance with the option agreement with Shear Minerals Inc. and Marum Resources Ltd. The Athabasca exploration property has been reduced by 348,800 hectares (861,536 acres) to retain lands

considered to be most prospective for precious metals. Birch Mountain has maintained our core exploration land in Athabasca, comprising 48,785 hectares (120,548 acres) held under metallic and industrial mineral leases that require an annual lease payment of \$175,000, and 360,675 hectares (891,228 acres) held under metallic and industrial mineral permits.

Birch Mountain's wholly owned subsidiary, Dawson Bay Minerals Inc., announced on April 22, 2002, that allowed the Special Exploration Permit 99-1 covering 9,784 hectares (24,166 acres) near Dawson Bay, Manitoba, to lapse. Birch Mountain no longer holds any mineral interests in Manitoba, the Yukon or Indonesia.

Corporate Organization

Dawson Bay Minerals Inc. is a wholly owned subsidiary of Birch Mountain Resources Ltd., and was incorporated to hold the Special Exploration Permits in Manitoba.

Danfort Development Limited is owned by Rockyview Development Ltd., which in turn, is a wholly owned subsidiary of Birch Mountain Resources Ltd. Rockyview Development and Danfort Development are registered and in good standing in the British Virgin Islands. All subsidiary companies are inactive.

002] → [JANUARY 7]

BMD announces we have entered into an agreement with AuRIC Precious Metals Inc. (AuRIC) to purchase rights to a customized fire assay protocol developed by AuRIC.

→ [MARCH 7]

BMD announces a negotiated settlement with the CDN-X, and the Company's share trading resumes on March 11.

Safety Health and Environmental Management

Birch Mountain has implemented a formal policy with respect to the safety, health and environmental aspects of our business activities. The Board of Directors regularly receives reports on safety, health and environment from management at Board meetings.

Disclosure

The Company is committed to full, fair and timely disclosure of all material events. All published information such as annual reports, news releases and information circulars are approved by the President with input from senior management, the Board of Directors and the Scientific Advisory Board, when appropriate. Legal counsel reviews our news releases prior to their announcement. Internet communications via e-mail are restricted to a limited number of management personnel, and postings to the Company's Web page must have prior approval from senior management.

To clarify our ongoing operations and address concerns relating to disclosure, the Company established two operating divisions: Mineral Technology and Mineral Exploration. Birch Mountain's Mineral Technology division will

focus on the Company's research and development operations relating to analysis, extraction and recovery of natural metal nanoparticles. The Mineral Exploration division will focus on exploration of the Company's mineral properties. Mineral technology disclosure will not be linked to a mineral property. Disclosure related to mineral exploration will conform fully to all applicable mineral disclosure regulations, policies and Exchange requirements.

This annual report contains forward-looking statements that represent management's judgment regarding future events. Forward-looking statements are typically identified by the use of words such as may, will, should, plan, expect, anticipate, intend, estimate and similar terms. Other than historical fact, all statements in this report regarding our financial position, business strategy and plans for the future are forward-looking statements. We cannot guarantee the accuracy of these forward-looking statements, and they may not be updated. Actual results could differ materially from forward-looking statements because of the variety of risks affecting our business.

[APRIL 2] •

BMD announces the discovery of natural platinum nanoparticles in sedimentary rock.

[MAY] •

BMD eagerly looks forward to the months ahead.

Birch Mountain has included numbers for the years ended December 31, 2001, 2000 and 1999 in the Consolidated Statements of Cash Flow and the Consolidated Statements of Deficit and Loss. Tabular information in the Notes to the Consolidated Financial Statements also contains three years of comparative data.

auditors' report

To the shareholders of
Birch Mountain Resources Ltd.

We have audited the consolidated balance sheets of Birch Mountain Resources Ltd. as at December 31, 2001 and 2000 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the years ended December 31, 2001 and 2000, we conducted our audit in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for the year ended December 31, 1999, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in accordance with Canadian generally accepted accounting principles.

Myers Donn Peungka P

Calgary, Alberta

March 11, 2002 Chartered Accountants

COMMENTS FOR U.S. READERS

In the United States, reporting standards for auditors require the addition of an explanatory paragraph following the opinion paragraph when there are substantial uncertainties about the Company's ability to continue as a going concern, as referred to in Note 1 to these consolidated financial statements. Our report to the shareholders dated March 11, 2002, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such matters in the auditors' report when the facts are adequately disclosed in the financial statements.

management's responsibility for financial statements

Management is responsible for all information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), and include amounts based on management's informed judgments and estimates. The financial and operating information included in this annual report is consistent with that contained in the consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate, and that assets are safeguarded.

External auditors appointed by the shareholders have independently examined the consolidated financial statements and performed the tests

deemed necessary to enable them to express an opinion on these consolidated financial statements.

The Audit Committee has reviewed the consolidated financial statements with management and the auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.



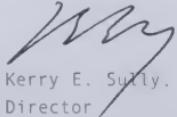
Donald L. Dabbs,
Vice President & CFO

consolidated balance sheets

As at December 31

| | | 2001 | 2000 |
|--|---------------------|---------------|------|
| ASSETS | | | |
| Current | | | |
| Cash (Note 4) | \$ 290,714 | \$ 2,861,715 | |
| Accounts receivable | 32,968 | 64,422 | |
| Prepays and deposits | 60,097 | 10,034 | |
| | 383,779 | 2,936,171 | |
| Investment (Note 5) | — | 15,930 | |
| Capital assets (Note 6) | 225,828 | 200,587 | |
| Mineral exploration costs (Notes 3 and 7) | — | 8,338,431 | |
| | \$ 609,607 | \$ 11,491,119 | |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable | \$ 309,101 | \$ 385,462 | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital (Note 9) | 24,346,505 | 24,633,830 | |
| Deficit | (24,045,999) | (13,528,173) | |
| | 300,506 | 11,105,657 | |
| | \$ 609,607 | \$ 11,491,119 | |


 Donald L. Dabbs,
 Director


 Kerry E. Sully,
 Director

consolidated statements of loss & deficit

For the years ended December 31

| | 2001 | 2000 | 1999 |
|--|-----------------------|----------------|---------------|
| Expenses | | | |
| Amortization | \$ 59,046 | \$ 55,385 | \$ 40,478 |
| Consulting | 67,271 | 650,172 | 41,562 |
| Mineral exploration costs | 941,530 | - | - |
| Office | 284,698 | 228,276 | 162,197 |
| Professional fees | 450,538 | 322,499 | 120,811 |
| Research costs | 128,068 | 160,539 | - |
| Salaries, management fees and benefits | 428,171 | 475,912 | 247,870 |
| Shareholder services and promotion | 267,921 | 278,583 | 222,769 |
| Loss before the following | 2,627,243 | 2,171,366 | 835,687 |
| Interest and other income | (72,560) | (194,504) | (71,096) |
| Gain on disposal of investment | (15,463) | - | (2,090) |
| Writedown of investments | - | - | 14,160 |
| Writedown of mineral exploration costs | - | 1,792,388 | 25,836 |
| | (88,023) | 1,597,884 | (33,190) |
| Loss before income taxes | 2,539,220 | 3,769,250 | 802,497 |
| Future income tax recovery | (359,825) | (238,622) | (226,800) |
| Net loss for year | 2,179,395 | 3,530,628 | 575,697 |
| Deficit, beginning of year, as previously stated | (13,528,173) | (9,997,545) | (9,421,848) |
| Adjustment for change in accounting policy (Note 3) | (8,338,431) | - | - |
| Deficit, beginning of year, as restated | (21,866,604) | (9,997,545) | (9,421,848) |
| Deficit, end of year | \$(24,045,999) | \$(13,528,173) | \$(9,997,545) |
| Loss per share | | | |
| Basic | \$ (0.06) | \$ (0.11) | \$ (0.02) |

consolidated statements of cash flow

For the years ended December 31

| | 2001 | 2000 | 1999 |
|---|--------------------|--------------|------------|
| Cash flows from operating activities | | | |
| Interest income received | \$ 90,265 | \$ 168,530 | \$ 71,096 |
| Refund of deposits | - | - | 175,555 |
| Cash paid to employees | (805,464) | (475,912) | (247,870) |
| Cash paid to suppliers | (1,875,408) | (1,103,616) | (526,667) |
| | (2,590,607) | (1,410,998) | (527,886) |
| Cash flows from financing activities | | | |
| Issuance of common shares for cash | 72,500 | 4,386,926 | 1,656,061 |
| Share issuance costs | - | (36,536) | (34,594) |
| | 72,500 | 4,350,390 | 1,621,467 |
| Cash flows from investing activities | | | |
| Proceeds on disposal of investment | 31,392 | - | 8,890 |
| Purchase of capital assets | (84,286) | (118,922) | (38,438) |
| Mineral exploration costs | - | (902,313) | (595,663) |
| | (52,894) | (1,021,235) | (625,211) |
| Increase (decrease) in cash | (2,571,001) | 1,918,157 | 468,370 |
| Cash at beginning of year | 2,861,715 | 943,558 | 475,188 |
| Cash at end of year | \$ 290,714 | \$ 2,861,715 | \$ 943,558 |

notes to the consolidated financial statements

For the years ended December 31, 2001,
2000 and 1999

1. Nature of operations and going concern considerations

Birch Mountain Resources Ltd. (the Company) is in the process of exploring its mineral leases and permits and has not yet determined whether they contain economically recoverable reserves.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a going concern basis. This presumes funds will be available to finance ongoing exploration, operations and capital expenditures and permit the realization of assets and the payment of liabilities in the normal course of operations for the foreseeable future. The Company has incurred a net loss of \$2,179,395 during the year ended December 31, 2001 (2000 - \$3,530,628; 1999 - \$575,697) and as at December 31, 2001, has a deficit of \$24,045,999.

The Company is obligated to incur certain levels of expenditures to maintain its rights to continue exploration of certain mineral leases and permits. The Company's ability to continue as a going concern is largely dependent on its success in obtaining sufficient funds to carry out exploration activities on its mineral claims, preserving its interest in the underlying claims, establishing the existence of economically recoverable mineral reserves, achieving successful results from its research efforts and obtaining the financing to

complete the development and achieve future profitable production or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis.

In the past, the Company has been successful in raising funds in the equity market for exploration, research and operating activities, but there is no assurance that it will be able to do so in the future. If future financing efforts do not meet with success, there is substantial doubt about the ability of the Company to continue as a going concern as it would likely have to dispose of its assets on a less than advantageous basis.

These financial statements do not give effect to any adjustments which might be necessary should the Company be unable to continue its operations as a going concern.

2. Significant accounting policies

The consolidated financial statements are expressed in Canadian dollars and are prepared in accordance with accounting principles generally accepted in Canada. These financial statements include the accounts of the Company and its wholly owned subsidiaries, Dawson Bay Minerals Inc., Swift River Minerals Ltd., and Rockyview Development Limited and its subsidiaries. Swift River Minerals Ltd. was voluntarily dissolved on June 30, 2000. Rockyview Development Limited and its subsidiaries have been inactive for the past three years.

a] MINERAL EXPLORATION COSTS

During the quarter ended March 31, 2001, the Company adopted the requirements of Accounting Guideline 11, "Enterprises in the Development Stage" (see Note 3). Pursuant to the adoption of this Guideline, commencing January 1, 2001, the Company expenses mineral exploration costs unless the deferral criteria are met, and it is probable that they will be recoverable from the future operations of the related project.

Prior to 2001, mineral leases and permits were recorded at cost. Cost included cash consideration and the market value of shares issued, if any. All direct and indirect acquisition and exploration expenditures were capitalized and deferred until the leases and permits to which they related were placed into production, sold, allowed to lapse, or abandoned. These costs were to be amortized over the estimated useful lives of the leases and permits following the commencement of production, or written off if the leases and permits were sold, allowed to lapse, or abandoned. The Company assessed the carrying value of these mineral exploration costs annually and then, based on estimates, adjusted the carrying amount for any impairments in value or surrender of permits or leases. The net costs related to abandonment or impairment were charged to earnings.

Leases and permits acquired under option or joint venture agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

b] CAPITAL ASSETS

Capital assets are recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

| | Method | Rate |
|------------------------|-------------------|----------|
| Equipment | Declining balance | 20%-30% |
| Computer | Declining balance | 30%-100% |
| Automotive | Declining balance | 30% |
| Leasehold improvements | Straight line | 20% |

c] FUTURE INCOME TAXES

The Company has adopted the asset and liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset or liability in the consolidated balance sheet and its tax basis – at the rate enacted at the date of the balance sheet. At the end of each year, future tax assets and future tax liabilities are reassessed, and any changes in the settlement value are reflected in income.

d] STOCK OPTIONS

No compensation expense is recognized when stock options are issued to employees, service providers or directors. Any consideration paid by the optionee on the exercise of stock options is credited to share capital.

e] CASH AND CASH EQUIVALENTS

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

f] FLOW-THROUGH SHARES

Under Canadian income tax legislation, corporations are permitted to issue shares whereby the Company agrees to incur qualifying expenditures, as defined under the Canadian Income Tax Act, and renounce the related income tax deductions to the investors. Share capital is reduced by the estimated future income tax benefit of the renounced deductions as the expenditures are incurred.

g] RESEARCH COSTS

The Company is actively engaged in researching new mineral technology applications. Costs associated with such projects, including patent application costs, are expensed in the period they are incurred.

h] PER SHARE AMOUNTS

Earnings per share amounts are computed using the weighted average number of common shares outstanding of 33,631,500 (2000 – 32,278,000; 1999 – 26,681,000). On January 1, 2001, the Company adopted the treasury stock method, as described in Note 3.

i] USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally acceptable accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include estimates related to the determination of impairment of mineral exploration costs, reclamation obligations and determination of qualifying renunciations. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. Adoption of accounting policies

a] MINERAL EXPLORATION COSTS

In March 2000, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 11 "Enterprises in the Development Stage" (AcG-11). The Guideline was effective for fiscal periods beginning on or after April 1, 2000, which affects the Company's December 31, 2001, year-end. Under AcG-11, all deferred resource property expenditures are reviewed, on a property-by-property basis, to assess their recoverability. When the carrying value of a property exceeds its net recoverable amount (net recoverable amounts are estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitment or the Company's assessment of a property's realizable value), a provision is made

for the impairment in value. Previously, the Company capitalized all of the exploration costs incurred on its mineral properties if exploration was continuing on the property, on the basis that sufficient exploration had not occurred to assess whether the deferred costs would be recovered from a geological resource or reserve.

The Company was aware that there were differing views of how AcG-11 could affect mining companies with respect to deferred mineral exploration costs. Although the Company had, and still continues to hold, sizeable land areas under mineral exploration leases and permits, it adopted AcG-11 and, in the absence of quantifiable evidence of a geological resource or reserve, wrote off its deferred mineral exploration costs. The Company has accounted for this change in accounting policy on a retroactive basis as a cumulative adjustment to increase the opening deficit and reduce the carrying value of mineral exploration costs at January 1, 2001, by \$8,338,431. Prior periods have not been restated.

In March 2002, subsequent to the adoption of the accounting policy, the CICA issued Emerging Issues Committee "Accounting by Mining Enterprises for Exploration Costs" (EIC-126) as additional guidance on this matter. Among other things, EIC-126 concluded that a mining enterprise that has not established mineral reserves objectively and, therefore, has no basis for preparing a projection of the estimated future net cash flow from the property is not precluded from capitalizing exploration costs, nor is it obliged to conclude that the capitalized costs have been impaired.

While the Company understands that EIC-126 provides additional clarification and guidance to support its previous policy for accounting for mineral exploration costs, the Company believes the change in accounting policy is appropriate for its circumstances and is consistent with reporting practices followed in the United States. The Company considers its exploration properties to be prospective, and will continue its exploration activities in search of an economic ore body.

b] PER SHARE AMOUNTS

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share amounts. The Company has adopted the new standard effective January 1, 2001, and has applied it to calculate earnings per share as at December 31, 2001. The Company has also retroactively applied the method to the earnings per share calculations for the years ended December 31, 2000, and 1999. Under the new standard, the treasury stock method is used, instead of the imputed earnings method, to determine the dilutive effect of stock options and other instruments. Under the treasury stock method, only "in the money" dilutive instruments have an impact on the diluted calculations. In computing the diluted loss per share, 546,500 shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2001 (2000 – 1,432,000; 1999 – 1,417,000). The effect of stock options and warrants on the per share amounts are anti-dilutive as their inclusion would reduce the loss per share; therefore, diluted amounts are not presented.

4. Cash

| | 2001 | 2000 |
|------------------------------|-------------------|---------------------|
| Cash, available for use | \$ 271,714 | \$ 2,823,715 |
| Cash, subject to restriction | 19,000 | 38,000 |
| | \$ 290,714 | \$ 2,861,715 |

Cash subject to restriction represents an amount on deposit as security for a letter of credit to the Government of Manitoba.

5. Investment

| | 2001 | 2000 |
|--------------------|------|-----------|
| Tahera Corporation | \$ - | \$ 15,930 |

During the year ended December 31, 1999, the cost of the Company's investment in 177,000 shares of Tahera Corporation, formerly Lytton Minerals Limited, had been written down to reflect its market value as at December 31, 1999. Also during 1999, the Company disposed of 40,000 shares for net proceeds of \$8,890.

The market value of the investment at December 31, 2000, was \$21,240.

During 2001, all of the 177,000 shares of Tahera Corporation were sold for proceeds of \$31,392.

6. Capital assets

| | 2001 | 2000 | | |
|------------------------|-------------------|----------------|-------------------|----------------|
| | Cost | Net Book Value | Cost | Net Book Value |
| Equipment | \$ 271,470 | 128,852 | \$ 229,605 | 115,055 |
| Computer | 227,482 | 50,711 | 212,567 | 55,073 |
| Automotive | 38,417 | 20,522 | 38,417 | 29,317 |
| Leasehold improvements | 30,009 | 25,743 | 2,501 | 1,142 |
| | \$ 567,378 | 225,828 | \$ 483,090 | 200,587 |

7. Mineral exploration costs

| | Change in | | | |
|----------|---------------------|--------------------|------------------|------------------|
| | Balance | Accounting | Balance | |
| | Dec. 31, | Policy | Dec. 31, | |
| | 2000 | (Note 3) | 2001 | |
| Alberta | \$ 8,217,013 | (8,217,013) | \$ - | |
| Manitoba | 121,418 | (121,418) | - | |
| | \$ 8,338,431 | (8,338,431) | \$ - | |
| | Balance | Additions | Writedown | Balance |
| | Dec. 31, | During | During | Dec. 31, |
| | 1999 | the Year | the Year | 2000 |
| Alberta | 7,715,104 | 2,233,588 | 1,731,679 | 8,217,013 |
| Yukon | 1 | - | 1 | - |
| Manitoba | 113,401 | 68,725 | 60,708 | 121,418 |
| | 7,828,506 | 2,302,313 | 1,792,388 | 8,338,431 |

| | 2001 | 2000 | 1999 |
|----------------------------------|-------------------|--------------|------------|
| Administration | \$ 6,414 | \$ 71,136 | \$ 3,000 |
| Assay and geological | 56,091 | 210,313 | 191,978 |
| Land lease and permit * | 171,250 | 1,579,366 | 50,414 |
| Materials, services and drilling | 177,744 | 140,103 | 109,209 |
| Rental | 81,228 | 58,486 | 8,150 |
| Salaries | 342,915 | 185,303 | 244,503 |
| Travel and accommodations | 105,888 | 57,606 | 51,140 |
| | \$ 941,530 | \$ 2,302,313 | \$ 658,394 |

* The 2000 land lease and permit cost includes \$1,400,000 relating to shares issued for mineral permits.

a] ALBERTA

Although the Company has adopted the policy of expensing mineral exploration costs, it still holds a significant number of mineral rights in the Athabasca and Birch Mountain regions of northern Alberta.

The Company is party to Co-Development Agreements with Syncrude Canada Ltd., Suncor Energy Inc. and Albian Sands Energy Inc. The agreements provide for a co-operative development of the lands and data sharing by bringing together the holder of the oil sands rights and the holder of the metallic and industrial mineral rights.

During 2000, the Company acquired certain mineral rights from Tintina Mines Limited and NSR Resources Inc. for consideration consisting of 600,000 common shares. The Company converted 45,388 hectares (112,156 acres) of mineral permits to mineral leases bringing the total land held under lease in the Athabasca Valley to 48,745 hectares (120,550 acres).

The Company allowed 19 mineral permits covering 175,104 hectares (432,690 acres) in the Caribou Mountains to lapse at the end of November 2000.

During 2001, certain lands in the Marguerite River area were designated wildlife preserves under the Special Places 2000 initiative of the Alberta Government. This designation affects only a small portion of the land interests held by the Company, and it is management's opinion that this designation will have a minimal effect on the Company. Additionally, the pre-existing mineral rights attached to these properties still remain in effect under the Special Places 2000 initiative.

On December 7, 2001, the Company relinquished 10 metallic and industrial minerals permits covering 91,114 hectares (225,147 acres).

At December 31, 2001, the Company's mineral property in the Athabasca region was comprised of 83 permits and 27 leases covering 675,316 hectares (1,668,375 acres). Precious metals are the principal exploration target on this property.

Based on the amount of land held under permits in the Athabasca region at December 31, 2001, the Company would be required to file an assessment report with the authorities indicating expenditures of approximately \$8,200,000. This assessment filing is due April 30, 2002. Management estimates that as at February 28, 2002, approximately \$6,000,000 in assessment work had been completed, an amount that is comprised of direct spending by the

Company as well as significant costs incurred by other parties involved with the Company as a result of Co-Development Agreements. The Company expects to relinquish some of its lower priority mineral permits in 2002.

Based on the amount of land held under lease at December 31, 2001, annual lease payments of approximately \$170,000 will be required.

At December 31, 2001, the Company's mineral property in the Birch Mountains region was comprised of 10 permits covering 92,160 hectares (227,731 acres). Diamond-bearing kimberlite intrusive rocks are the principal exploration target on this property, but the Company has also conducted some preliminary precious metal exploration in this region as well.

Based on the amount of land held under permits in the Birch Mountains region at December 31, 2001, the Company would be required to file an assessment report with the authorities indicating expenditures of approximately \$1,240,000. This assessment filing is due April 30, 2002, and will be filed jointly with the Athabasca assessment.

During 2001, the Company entered into discussions with Shear Minerals Ltd. (Shear) and Marum Resources Inc. (Marum). Under the terms of the agreement, Marum agreed to pay 100,000 of its shares, and Shear has agreed to pay 50,000 of its shares, to the Company. These shares were issued to the Company subsequent to December 31, 2001. Per the agreement, Marum and Shear can earn a total of 30% interest in the diamond rights held by the Company by spending \$150,000 on exploration and by completing three drill holes within the first year of the agreement. Marum and Shear can earn an additional 30% interest in the diamond rights in year two by spending \$150,000 on exploration, and another 30% interest in the diamond rights for a total of

90% interest in the diamond rights by spending \$250,000 on exploration in year three of the agreement. The Company will retain a 10% interest in the project and will hold a 2% gross overriding royalty on diamond production from the property. Marum and Shear may purchase 1% of the gross overriding royalty at any time for a payment of \$2,000,000.

b] YUKON

The Company did not exercise its option in 1998 to purchase a 100% interest in the Swift River permits in the Yukon. As a result, in 2000, the Company wrote off all costs related to this project.

c] MANITOBA

The Company's exploration activity in Manitoba is in the Dawson Bay area. The Dawson Bay mineral property is held by Dawson Bay Minerals Inc., a wholly owned subsidiary of Birch Mountain Resources Ltd.

On May 8, 2001, the Company announced that it had relinquished 82,030 hectares (202,614 acres) of special exploration permits in the Dawson Bay area, retaining only one exploration permit. An assessment filing of \$14,676 is due on April 20, 2002, to maintain this permit covering 9,784 hectares (21,177 acres). At present, it is the Company's intention not to file this assessment, thereby forfeiting the last remaining permit in the Dawson Bay area.

8. Credit arrangement

At December 31, 2001, the Company had an authorized credit totalling \$500,000, none of which was drawn. The rate of bank prime plus one will be applied to amounts drawn. Security provided includes cash, credit balances and deposit instruments held by the Company.

9. Share capital

The Company is incorporated under the jurisdiction of the Business Corporations Act of Alberta.

a] AUTHORIZED CAPITAL

Unlimited number of common voting shares

Unlimited number of preferred shares issuable in series

Unlimited number of non-voting shares

b] COMMON SHARES

| | Number | Amount |
|---|-------------------|---------------------|
| Balance December 31, 1999 | 28,289,884 | \$18,654,561 |
| Issued for cash | | |
| Private placement | 1,205,256 | 1,386,047 |
| Private placement of flow-through shares | 1,160,000 | 1,334,000 |
| Stock options exercised | 625,600 | 335,904 |
| Warrants exercised | 1,322,226 | 1,330,976 |
| Issued in lieu of salary | 350,000 | 490,000 |
| Issued for mineral rights | 600,000 | 1,400,000 |
| Tax benefits renounced on flow-through shares | – | (264,964) |
| | 33,552,966 | 24,666,524 |
| Share issuance costs net of tax benefit of \$15,436 | – | (32,694) |
| Balance December 31, 2000 | 33,552,966 | 24,633,830 |
| Issued for cash | | |
| Private placement | 94,156 | 72,500 |
| Tax benefits renounced on flow-through shares | – | (359,825) |
| Balance December 31, 2001 | 33,647,122 | \$24,346,505 |

During 2001, the Company completed a private placement of 94,156 units at \$0.77 per unit, none of which were flow-through units. Each unit consisted of one common share. No commissions were paid in relation to this issue.

At December 31, 2001, the Company had incurred and renounced approximately \$1,259,000 of its flow-through commitment of \$1,334,000. An additional amount of \$75,000 incurred during the first 60 days of 2002 has been renounced effective December 31, 2001.

During 2001, the Company entered into an agreement with AuRIC Precious Metals Inc. (AuRIC) to purchase rights to a customized fire assay protocol developed by AuRIC. The contract includes provisions for independent, third-party verification tests using a double-blind, chain-of-custody test protocol, the costs of which are to be born by the Company. When the Company is satisfied that AuRIC has met all of the conditions of the agreement, the Company has agreed to purchase the assay protocol from AuRIC for consideration of US\$400,000 plus 640,000 common shares of the Company, 400,000 that will be free trading, and the issuance of which must comply with the applicable laws in Canada and the United States.

During 2000, the Company entered into an agreement with American Precious Metals (APM) whereby APM would provide introductions to parties who could aid in advancing the determination of precious metals. The Company issued 350,000 shares at \$1.40 during 2000 and was to issue an additional 150,000 shares upon the determination that APM had delivered to the Company a successful assay method, as confirmed by independent tests done in a third-party laboratory. The costs related to this service were included in consulting costs in 2000. To date, APM has not presented an assay method and, as a result, the Company has not issued any additional shares to APM.

During 2000, the Company completed private placements of 2,365,256 units at \$1.15 of which 1,160,000 were flow-through units. Each unit consisted of one common share and one-half common share warrant. A commission of 19,565 units was paid in relation to this issue.

At December 31, 2000, the Company had incurred and renounced approximately \$450,000 of its commitment of \$1,334,000. An additional amount of \$78,000 incurred during the first 60 days of 2001 was renounced effective December 31, 2000.

c] PREFERRED SHARES

An unlimited number of preferred shares may be issued in one or more series, and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges and conditions attached to the shares of each series.

d] RESERVED FOR ISSUE

Options

The Company has a stock option plan under which the Board of Directors can grant options to purchase common shares to senior employees, consultants and directors, limited to a maximum of 10% of the issued and outstanding shares and a term not exceeding five years. All options vest at the time of issue.

The Company has granted options on common shares as follows:

| | Number of Options | Price Range | Average Price | Expiry Date |
|--------------------|-------------------|--------------|---------------|-------------|
| December 31, 1999, | | | | |
| outstanding | 2,795,600 | \$ 0.22-1.36 | \$ 0.80 | 2000-2004 |
| Exercised | (625,600) | 0.22-1.36 | 0.54 | 2000-2004 |
| Cancelled | (250,000) | 1.06 | 1.06 | 2000 |
| December 31, 2000, | | | | |
| outstanding | 1,920,000 | 0.22-1.36 | 0.85 | 2001-2004 |
| Granted | 683,750 | 0.60-0.65 | 0.62 | 2006 |
| Cancelled | (305,000) | 0.70-0.92 | 0.92 | 2002-2004 |
| December 31, 2001, | | | | |
| outstanding | 2,298,750 | \$ 0.22-1.36 | \$ 0.77 | 2002-2006 |

The following summarizes information about stock options outstanding as at December 31, 2001:

| Number of Shares | Expiry Date | Weighted Average Price |
|------------------|---------------|------------------------|
| 75,000 | January 2002 | \$0.70 |
| 50,000 | March 2002 | 0.70 |
| 10,000 | June 2002 | 0.70 |
| 150,000 | March 2003 | 0.22 |
| 75,000 | July 2003 | 0.22 |
| 490,000 | November 2003 | 0.35 |
| 30,000 | July 2004 | 1.25 |
| 735,000 | November 2004 | 1.36 |
| 408,750 | January 2006 | 0.60 |
| 275,000 | April 2006 | 0.65 |
| 2,298,750 | | \$0.77 |

Warrants

In relation to private placements, the Company has the following warrants outstanding:

| | Number of Warrants | Price Range | Weighted Average Price | Expiry Date |
|-------------------|--------------------|---------------|------------------------|-------------|
| December 31, 1999 | | | | |
| outstanding | 1,669,264 | \$1.00-1.50 | \$1.07 | 2000 |
| Issued | 1,182,628 | 1.50 | 1.50 | 2001 |
| Exercised | (1,322,226) | 1.00-1.50 | 1.01 | 2000 |
| Expired | (118,885) | 1.00 | 1.00 | 2000 |
| December 31, 2000 | | | | |
| outstanding | 1,410,781 | 1.50 | 1.50 | 2001* |
| Issued | — | — | — | — |
| Exercised | — | — | — | — |
| Expired | — | — | — | — |
| December 31, 2001 | | | | |
| outstanding | 1,410,781 | \$1.50 | \$1.50 | 2002 |

* The Company has received approval from the Canadian Venture Exchange Inc. to extend the expiry date of the following warrants: 228,152 warrants which were to have expired on November 10, 2001, have been extended to June 21, 2002; 764,231 warrants which were to have expired on October 22, 2001, have been extended to June 21, 2002; 408,614 warrants which were to have expired on October 25, 2001, will now expire on June 25, 2002; and 9,784 warrants which were to have expired on October 31, 2001, have been extended to June 31, 2002. The exercise price of all warrants will remain \$1.50 per share.

e] ESCROWED SHARES

Under the requirements of the Alberta Securities Commission and the Canadian Venture Exchange Inc., 12,483,040 common shares issued in connection with the Company's initial listing as a Junior Capital Pool Corporation, its major transaction and its initial public offering, were held in escrow. As at December 31, 1998, all of these shares have been released from escrow. Under the terms of a voluntary pooling agreement, an additional 8,528,366 common shares were also placed in escrow and were to be released equally over five years.

As at December 31, 2001, nil common shares remained in escrow (2000 – 1,705,678).

10. Continuing obligations

The Company rents premises and equipment under operating leases requiring annual payments over the next five years as follows:

| | |
|------|------------|
| 2002 | \$ 379,000 |
| 2003 | 373,000 |
| 2004 | 373,000 |
| 2005 | 353,000 |
| 2006 | 324,000 |

11. Related-party transactions

The Company had the following transactions with related parties:

- Included in mineral exploration costs are amounts paid for aircraft usage and airborne surveying services of \$Nil (2000 – \$Nil; 1999 – \$78,000) to a company controlled by a director;

- Included in salaries, management fees, and benefits are management fees aggregating \$Nil (2000 – \$Nil; 1999 – \$2,400) which were paid to companies employing the services of a director; and
- Included in shareholder services and promotion are amounts of \$8,288 (2000 – \$5,750; 1999 – \$625) paid to a company controlled by the spouse of a director, for her consulting services.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration establishing and agreed to by the related parties.

12. Income taxes

Future income tax assets consist of the following temporary differences:

| | 2001 | 2000 | 1999 |
|---|---------------------|--------------|-------------|
| Mineral exploration costs | \$ 5,355,105 | \$ 2,004,052 | \$ 744,855 |
| Capital assets | 172,156 | 141,985 | 117,689 |
| Scientific Research and Experimental Development Expenditures Unclaimed | 89,157 | 94,471 | 94,471 |
| Loss carryforwards | 869,553 | 662,160 | 662,389 |
| Share issuance costs | 21,843 | 32,780 | 79,473 |
| Valuation allowance | (6,507,814) | (2,935,448) | (1,698,877) |
| Future tax assets (net of valuation allowance) | \$ – | \$ – | \$ – |

At December 31, 2001, the Company has the following deductions available, which have been reflected in the financial statements:

- Canadian mining exploration costs and undepreciated capital cost allowance of \$13,352,000 (2000 – \$12,000,000, 1999 – \$9,300,000) which may be carried forward indefinitely;
- Scientific Research and Experimental Development costs of \$211,000, which may be carried forward indefinitely; and
- Non-capital loss carryforwards of approximately \$2,065,000 which will expire as follows:

| | |
|------|------------|
| 2002 | \$ 387,000 |
| 2003 | 307,000 |
| 2004 | 297,000 |
| 2005 | 132,000 |
| 2006 | 185,000 |
| 2007 | – |
| 2008 | 757,000 |

In addition to the above, the Company has the following deductions available, which have not been reflected in the financial statements:

- Capital losses of \$765,000 which may be carried forward indefinitely; and
- Investment tax credits of \$38,000 available for carry forward to 2005.

The income tax recovery differs from the amount that would be expected by applying the current tax rates for the following reasons:

| | 2001 | 2000 | 1999 |
|---|--------------|--------------|------------|
| Loss before taxes | \$ 2,539,220 | \$ 3,769,250 | \$ 802,497 |
| Expected tax recovery of 42.11% (2000 and 1999 – 44.62%) | 1,069,266 | 1,681,839 | 358,074 |
| Mineral exploration expenses capitalized for tax | (295,773) | (500,547) | (25,081) |
| Other | (25,007) | (9,464) | (17,728) |
| Resource allowance | (64,780) | (184,491) | (62,045) |
| Share issue costs | 9,093 | 73,035 | 77,096 |
| Valuation allowance | (332,974) | (821,750) | (103,516) |
| Future income tax recovery | \$ 359,825 | \$ 238,622 | \$ 226,800 |

13. Segmented information

The Company's principal business segment is the acquisition and exploration of mineral leases and permits, and the development of mineral technologies. All of the Company's leases and permits are in the exploration stage. The Company's activities are focused on Western Canada, as detailed in Note 7.

14. Financial instruments

The Company's financial instruments include cash, accounts receivable, investment and accounts payable. There are no material differences between their fair values and carrying values at the balance sheet dates.

15. Subsequent events

Subsequent to the balance sheet date, the Company received 50,000 shares of Shear Minerals Ltd, and 100,000 shares of Marum Resources Inc., as per the terms of the agreement outlined in Note 7.

On March 7, 2002, the Company and the Canadian Venture Exchange Inc. reached an agreement whereby the Canadian Venture Exchange Inc. agreed to lift the suspension imposed by it on March 5, 2001, and reinstate the shares of the Company to trading. Part of the agreement includes a reimbursement of expenses associated with the technical audit costs paid by the Company as a result of the trading suspension. The Company's shares resumed trading on March 11, 2002.

16. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

17. Material differences between Canadian and United States generally accepted accounting principles

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principals (GAAP) in Canada. Significant differences between GAAP in Canada and the United States that would have an effect on these consolidated financial statements are as follows:

a] The balance of any unspent funds raised under a flow-through arrangement is considered restricted cash under U.S. GAAP and would require separate disclosure on the face of the balance sheet. In addition, such restricted amounts would not be considered cash and cash equivalents for cash flow reporting purposes. The amount of such restricted cash applicable to future flow-through expenditures included in the balance sheet was \$75,000 at December 31, 2001 (2000 – \$806,000).

b] Mineral exploration costs are accounted for in accordance with Canadian GAAP as discussed in Note 2. For U.S. GAAP purposes, the Company expenses exploration costs relating to unproven mineral leases and permits as incurred as well as acquisition costs for leases and permits that do not provide for unrestricted exploration. Any writedown of capitalized exploration costs would be considered an operating expense and included in the determination of operating loss for the period in which the writedown occurred. For U.S. GAAP cash flow statement purposes, mineral exploration costs would be shown under operating activities rather than under investing activities. For 2001, the Company's treatment of mineral exploration costs is similar to the treatment under U.S. GAAP, resulting in no material differences.

c] Future income taxes related to flow-through shares for renunciation of qualified resource expenditures are treated as a cost of issuing those securities for Canadian GAAP. For U.S. GAAP, these costs are included in the future tax provision.

If these consolidated financial statements were prepared in accordance with U.S. GAAP, the impact on the balance sheets would be as follows:

| | 2001 | 2000 |
|---|----------------------|---------------|
| Mineral exploration costs under Canadian GAAP | \$ - | \$ 8,338,431 |
| Exploration expenditures | - - | 8,338,431 |
| Mineral exploration costs under U.S. GAAP | \$ - | \$ - |
| Deficit under Canadian GAAP | \$ 24,045,999 | \$ 13,528,173 |
| Exploration expenditures | - - | 8,338,431 |
| Future income taxes | 1,229,889 | 870,064 |
| Deficit under U.S. GAAP | \$ 25,275,888 | \$ 22,736,668 |

In addition, the impact on the consolidated statements of loss would be as follows:

| | 2001 | 2000 |
|---|---------------------|--------------|
| Net loss for the year under Canadian GAAP | \$ 2,179,395 | \$ 3,530,628 |
| Exploration expenditures | - - | 509,885 |
| Future income taxes | 359,825 | 238,662 |
| Net loss for the year under U.S. GAAP | \$ 2,539,220 | \$ 4,279,175 |
| Loss per share under U.S. GAAP | | |
| Basic | \$0.08 | \$0.13 |

For U.S. GAAP purposes, the Company has adopted APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), to account for stock-based compensation to employees and directors using the intrinsic value-based

method whereby compensation cost is recorded for the excess, if any, of the quoted market price, at the date granted. As at December 31, 2001, no compensation cost has been required to be recorded for any period under this method as the option price has been equal to the market price on the date of the grant.

The Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), issued in October 1995, requires the use of the fair value-based method of accounting for stock options. Under this method, compensation cost is measured at the date of grant based on the fair value of options granted and is recognized over the vesting period. These costs were calculated in accordance with the Black-Scholes option pricing model, assuming no dividends are to be paid, vesting occurring on the expiration of the grant, and an annual risk-free rate of 5%. There were 683,750 options issued during 2001 (2000 - Nil).

Had the Company adopted SFAS 123 for its U.S. GAAP disclosure, the following net losses would have been reported:

| | 2001 | 2000 |
|---|---------------------|--------------|
| Net loss for the year under U.S. GAAP | \$ 2,539,220 | \$ 4,279,175 |
| Pro forma stock compensation | 95,061 | 193,087 |
| Pro forma loss for the year under U.S. GAAP | \$ 2,634,281 | \$ 4,472,262 |
| Loss per share under U.S. GAAP | | |
| Basic | \$0.08 | \$0.14 |

directors, officers, staff & consultants

Directors & Officers

DOUGLAS J. ROWE, P.ENG..

PRESIDENT & CEO, CALGARY, ALBERTA

Co-founder of Birch Mountain Resources, Doug has been President and CEO since the formation of the Company. He founded Brougham Geoquest Ltd. in 1984, and has developed innovative exploration technology for oil, gas, and minerals. Doug is a member of the compensation committee.

DONALD L. DABBS, M.Sc., P. AG. P.BIOL.,

VICE PRESIDENT & CFO, CALGARY, ALBERTA

Co-founder of Birch Mountain Resources, Don has nearly 30 years of consulting experience in environmental management and regulatory applications to provincial and federal governments. He has consulted to major resource developments in Western and Northern Canada, including those in the Athabasca oil sands. Don is a member of the audit committee.

DR. JACK CLARK, PH.D.

Jack, who holds a Ph.D. in geotechnical engineering, is a consultant and an Honorary Research Professor and Professor of Engineering at Memorial University in Newfoundland, Canada. He is the Past President of the Centre for Cold Ocean Resources Engineering, which pursues research and advisory services in several areas of advanced technology. Jack provides consulting services to a wide range of government and industry clients in North America.

CHARLES HOPPER, B.A.

Charles is the Managing Director of Lehman Brothers, Inc., of New York, where he is responsible for asset management for private clients. Charles has more than 25 years of experience in the financial industry that includes previous associations with Morgan Stanley and The Northern Trust Company.

LANNY K. MCDONALD,

BAKER HUGHES CANADA COMPANY, HOCKEY CANADA,
CALGARY, ALBERTA

In 1990, after more than 16 years of National Hockey League play, Lanny joined the Calgary Flames as Vice President. In 2000, Lanny left the Flames and is now Marketing Director with Baker Hughes Canada. He is also the Assistant Executive Director for the Men's World Hockey Championship in 2001. Lanny is chairman of the compensation committee and is a member of the audit committee.

KERRY E. SULLY, P.ENG. (ALBERTA),

PRESIDENT, CGX ENERGY INC.,

VANCOUVER, BRITISH COLUMBIA

President, CEO and Director of CGX Energy Inc, and former President, CEO, and Director of Ranchmen's Resources Ltd., Kerry has 31 years of oil and gas experience with public companies. Kerry is Chairman of the Board of Birch Mountain and is a member of both the audit and compensation committees.

JOHN HOUGHTON, LL.B.,

CORPORATE SECRETARY

John has practiced law for more than 20 years, and is a partner in the firm Donahue and Partners in Calgary. His practice is primarily the identification and resolution of business matters for a variety of public companies and senior private firms. He is Past Chairman of the National Business Law Section for the Canadian Bar Association and the Business Law Subsection of Alberta for the Law Society of Alberta.

SUZANNE LOOV, LL.B.,

ASSISTANT CORPORATE SECRETARY

Suzanne is a partner in the firm Armstrong Perkins Hudson LLP and has been practicing corporate and securities law for seven years. Her practice relates primarily to advising private and public companies on private and public financings, mergers and acquisitions, corporate reorganizations, and continuous disclosure requirements.

Staff

HUGH J. ABERCROMBIE, PH.D.,

VICE PRESIDENT, EXPLORATION

Before joining Birch Mountain in 1997, Hugh worked with the Geological Survey of Canada, where he studied fluid migration and the deposition of gold and precious metals in sedimentary basins. Hugh has more than 20 years of experience in geology, geochemistry and mineral exploration, and is Past President of the Calgary Mineral Exploration Group.

**GLEN DE PAOLI, M.Sc. P. GEOL.,
SENIOR PROJECT GEOLOGIST**

Glen received a Masters degree in Geology from the University of Calgary in 1994. He has been a consultant for 10 years, providing expertise in ore deposits and micro-analytical techniques to mineral exploration companies in British Columbia and Alberta, and to the Geological Survey of Canada. Glen is a member of the Calgary Mineral Exploration Group and APEGGA.

**KYLA ARDEN, M.Sc.,
PROJECT GEOLOGIST**

Kyla joined Birch Mountain as a geologist in 1997. She graduated from the University of Manitoba in 1995 with a Masters degree in Geochemistry. She has considerable experience in geological mapping projects and in laboratory analysis, including SEM. Kyla is a member of the Calgary Mineral Exploration Group.

**WILLIAM R. HEMSTOCK, B.Sc.,
SENIOR TECHNICIAN**

Bill has been with Birch Mountain since its inception as a private company in 1994. He has more than 15 years of mineral exploration experience in managing airborne, waterborne and ground-based geophysical projects. In addition, he spent five years in the project management of forest inventory and preparation of environmental impact statements.

**BRETT G. JOHNSON, B.Sc.,
EXPLORATION GEOLOGIST**

Brett joined Birch Mountain in 1996 after graduating from the University of North Dakota with a degree in Environmental Geology. He has exploration experience in Alberta,

Manitoba, British Columbia and the Yukon. Brett is a member of the Calgary Mineral Exploration Group.

**GERALD KOZDIAL, B.Sc.,
JUNIOR GEOLOGIST**

Gerald, who recently completed a B.Sc at the University of Calgary, has provided assistance to Birch Mountain in the field and laboratory since 1997.

**SCOTT R.A. ROSE, M.Sc.,
PROJECT GEOLOGIST**

Scott joined Birch Mountain early in 1999 after receiving an M.Sc. in Geology and Geochemistry from the University of Calgary. His research focused on carbonate stratigraphy, geochemistry and basin modeling of strata-bound ore deposits. Scott has national and international field experience in mineral exploration in Canada's Arctic Islands and in Peru, South America. Scott is a member of the Calgary Mineral Exploration Group.

**JANE E. QUINN,
SHAREHOLDER SERVICES**

Jane has been with Birch Mountain since its inception as a private company in 1994. Her previous business experience includes computer operations, office management and administration management for a number of oil and gas, mapping and land companies. Jane is a member of the Prospectors and Developers Association of Canada, the Canadian Institute of Investor Relations and the Calgary Mineral Exploration Group.

Scientific Advisory Board

DR. ROBERT FITCH, EL PRADO, NEW MEXICO

Dr. Fitch, President of Fitch and Associates, is primarily involved in assessing new technologies and research in chemistry and physics. Dr. Fitch retired as Senior Vice President of Research and Development for SC Johnson Wax in 1990. Prior to that, he was Professor of Chemistry and Materials Science at the University of Connecticut. Dr. Fitch holds patents and has published more than 100 papers and three books on polymer colloids and polymers at interfaces.

DR. RICHARD PUDDEPHATT, LONDON, ONTARIO

Dr. Puddephatt is a Fellow of the Royal Society (U.K.), Fellow of the Royal Society of Canada and Professor of Chemistry at the University of Western Ontario. He has published several books on the chemistry of gold and more than 450 peer-reviewed scientific publications in the field of chemistry. Dr. Puddephatt holds patents and is Senior Editor of the *Canadian Journal of Chemistry*.

Technical Advisors & Consultants

LEGG MASON WOOD WALKER, INC.

Legg Mason Wood Walker, Inc. is the principal broker-dealer subsidiary of Legg Mason, Inc., a publicly traded holding company headquartered in Baltimore, Maryland. Legg Mason provides investment advisory, securities brokerage, investment banking and related financial services through its wholly owned subsidiaries.

corporate information

Head Office

3100 - 205 Fifth Avenue SW
 Calgary, Alberta, Canada T2P 2V7
 Tel: 403.262.1838
 Fax: 403.263.9888

Contacts

Douglas Rowe, President & CEO
 or Jane Quinn, Shareholder Services
 e-mail: jquinn@birchmountain.com
 For current information, visit:
www.birchmountain.com

Registrar & Transfer Agent
 Computershare Trust Company of Canada

Bankers

HSBC Bank Canada

Auditors

Meyers Norris Penny

Solicitors

Armstrong Perkins Hudson LLP
 Donahue Ernst & Young
 Hodgson Russ Andrews Woods & Goodyear
 Macleod Dixon LLP

Corporate Data

| | December 31 2001 | March 31 2002 |
|---|---------------------|------------------|
| Common shares issued and outstanding | 647,122 | 22,647,122 |
| Outstanding common share options | 2,298,750 | 3,313,750 |
| Common shares via outstanding warrants | 1,410,781 | 1,410,781 |
| Fully diluted common shares | 37,356,653 | 38,371,653 |
| Public float (estimate) | 30,000,000 | 30,000,000 |

For more information on common shares, escrowed shares, and stock options, see note 9 in the Notes to the Financial Statements.

Capitalization & Share Distribution

| December 31, 2001 | |
|------------------------------------|-----------------------|
| Symbol | BMD |
| Exchange | Canadian Venture-CDNX |
| Shares outstanding | 33,647,122 |
| Fully diluted shares | 37,356,653 |
| 52-week high | \$0.87 |
| 52-week low | \$0.50 |
| Market capitalization ¹ | \$24.5 million |

¹ Last trade before March 5, 2001, suspension.

Conversions

| To Convert: | Multiply by: |
|---|--------------|
| Acres to hectares | 0.405 |
| Hectares to acres | 2.47 |
| A tonne to a tonne | 0.907 |
| A tonne to a ton | 1.1 |
| Metres to feet | 3.28 |
| Kilometres to miles | 0.62 |
| Grams/metric tonne to troy ounces/short ton | 0.029 |

Annual General Meeting

Thursday, June 20, 2002

3:30 pm

Angus/Northcote Rooms

Conference Centre

Plus 30 Level

Bow Valley Square II

205 Fifth Avenue S.W.

Calgary, Alberta, Canada

Shareholders unable to attend the meeting are encouraged to complete and return a valid FORM of PROXY, which is mailed to all shareholders of record before the meeting.



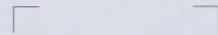
| | | |
|---|--|---|
| B | BIRCH MOUNTAIN RESOURCES LTD. 3100, 205 FIFTH AVENUE S.W. CALGARY, ALBERTA CANADA T2P 2V7 TEL 403 262 1838 FAX 403 263 9888 | F |
| M | | |
| D | | |



50,000x

magnification

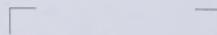
This dot represents a nanoparticle
magnified 50,000 times.



140,000x

magnification

This dot represents a nanoparticle
magnified 140,000 times its original size.



214,000x

magnification

And here the dot represents the size
of a nanoparticle magnified 214,000 times.